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TAGS: [ECON](#) [EPET](#) [ENRG](#) [EFIN](#) [PGOV](#) [VE](#)

SUBJECT: PDVSA OIL EARNINGS - WHAT THEY MEAN ABOUT
PRODUCTION

REF: A. CARACAS 1546

- [1](#)B. CARACAS 1359
- [1](#)C. CARACAS 1336
- [1](#)D. 04 CARACAS 3747

Classified By: ECONOMIC COUNSELOR RICHARD M SANDERS FOR REASON 1.4 D

SUMMARY

[1](#)1. (C) A controversy is raging in Venezuela over just how much money state-owned oil company PDVSA delivered to the Venezuelan Central Bank (BCV) in the first quarter of 2005, which in turn calls into question whether its claimed oil production is accurate. (As we reported ref A, industry observers are confident that official numbers are grossly exaggerated and even suggest production is dwindling.) Statements from PDVSA and the BCV conflict, and statements made by Rafael Ramirez, Minister of Energy and President of PDVSA, contradict themselves. Claiming that production is still at the OPEC quota, Ramirez_ and other government officials have also admitted to diverting funds for GOV social spending in a way the BCV says is not allowed. (Unadmitted and impossible to calculate is how much PDVSA money has been corruptly diverted into private hands.) But even after accounting for those funds, and other theoretically legal diversions, the difference between what the BCV says oil earnings are and what it should receive is potentially in the billions of dollars. PDVSA has made several press releases since the accusations began, and Ramirez_ made a lengthy speech before the National Assembly May 25 on the subject. One of the leading figures in publicly questioning the figures tells post that these are clear signs the GOV is "on the defensive." END SUMMARY.

THE NUMBERS, PDVSA VERSION

[1](#)2. (U) On May 6, Energy Minister Rafael Ramirez_ announced in a press conference that PDVSA had received USD 7.513 billion for exports of crude and products in the first quarter of [1](#)2005. He also stated that USD 480 million had been diverted to the Special Development Fund (SDF, see ref D and previous) for large infrastructure projects, and USD 600 million into the "rotating fund" (a long-standing fund to facilitate imports of materials necessary for oil production), with the remainder - USD 6.433 billion - going to the BCV. He reiterated the claim that Venezuela is "producing 3.3 million barrels per day." BCV Director Domingo Maza Zavala responded the same day, saying, "PDVSA is delivering to the BCV USD 400 million per week, which is USD 1.6 billion per month (i.e., 5.2 billion for the quarter, some 1.2 billion less than Ramirez_ claimed), that is what is coming in." On May 11, Maza testified to the Control Commission ("Controloria") of the National Assembly that the agreement which created the SDF had supposedly been a one-time agreement. Any diversion of funds beyond the original USD 2 billion - reportedly transferred in its entirety in 2004 - had not been approved by the BCV, he said.

[1](#)3. (U) Ramirez_ then said May 18 that PDVSA was not, in fact, diverting funds from the BCV - at least nothing it wasn't allowed to. Ramirez_ added, "We've already adjusted these statistics with the BCV and we have no deviations." He then cited several statistics that were different from those he had announced May 6. A subsequent May 20 press release by PDVSA clarified that Ramirez's new numbers were for the first four months of 2005. New information in the press release included claims that USD 860 million had been paid to the "operating service agreement" (contracts with private companies to produce oil in more mature fields) companies (Ramirez_ was quoted as saying USD 890 million), USD 640 million to the SDF, USD 194 million to the rotating fund (Ramirez_ on May 18 repeated the figure of USD 600 million), USD 1.418 billion for imports of "necessary products," and

USD 39 million for interest on debt. The press release cited total oil production as 3.24 million b/d, with 617,000 b/d from the so-called "strategic associations" that upgrade crude from the Orinoco heavy oil belt. The release denied receiving any income from oil produced in the Orinoco Belt "strategic associations," noting that "the dollars corresponding to the associations of the Orinoco Petroleum Belt never enter the country."

THE NUMBERS, CENTRAL BANK VERSION

14. (C) The BCV released its first quarter balance of payments numbers on May 24. They showed total public (PDVSA) oil export income as USD 7.925 billion (presumably an estimate based on PDVSA's reported production), net oil income of USD 5.116 billion, and public imports of products for oil production as an outflow worth USD 306 million. The last two combined indicate that PDVSA turned over no more than USD 5.422 billion to the BCV in the first quarter of 2005. This is very much in line with what Maza said, but both numbers contradict what Ramirez and PDVSA claimed. Considering both the under-declaration of income, and overstatement of currency given to the BCV, the gap between the Ramirez/PDVSA numbers and those of the BCV is about USD 1.4 billion, or 17.6% of the alleged total value of oil exports during the first quarter of 2005.

JUST HOW BIG IS THE GAP?

15. (C) Efrain Velazquez, President of the National Economic Council (an entity roughly equivalent to the USG's Council of Economic Advisors, but which is largely ignored by the Chavez government) told econoff May 19 that the gap between actual income and funds given to the BCV has been "between (USD) 3.5 and 5 billion" since 2004. This includes the USD 2.1 billion which Ramirez cited May 18, but Velazquez also called some of that into question, noting that only about USD 700 million has been diverted to the rotating fund in each of the last three years, and suggested that to approach the annual total in only three months is suspicious. Jose Barcia, Vice President of economic consultancy Metroeconomica, noted that the total should be reduced due to oil shipments to Cuba (ref B), which could account for USD 360 million more in reduced revenue, as that oil is not paid for in cash. He also cited some statistics about the strategic associations which indicate that PDVSA should have received about USD 750 million for their share of production. This is contrary to Ramirez's May 18 comments, i.e., "There is a quantity (of money) that stays out of Venezuela, the money from the strategic associations never enters." Velazquez noted that the claimed numbers for exports also seem excessively large, as USD 1.418 billion is more than was spent each year since 1997 (when BCV on-line records begin). If that number and the BCV first quarter number were both true, April expenditures were more than the average of the proceeding 8 full calendar years.

16. (C) Jose Guerra, head of economic research at the BCV until January 2005, has been the most outspoken questioner of the GOV's numbers. At a public forum May 25, he noted that fully 25% of the oil income PDVSA reported to the BCV in the first quarter of 2005 was unaccounted for, even according to the GOV's public explanations of money kept in special accounts and allegedly used for legitimate purposes. If the discrepancy corresponds to nothing but lack of actual income due to reduced exports, then total Venezuelan oil production in the first quarter was actually only 2.45 million b/d, he asserted. Guerra noted to econoff on May 26 that those numbers do not even take into consideration what PDVSA should have received from CITGO and from the strategic associations, calling claims that PDVSA receives no income from the latter "the biggest absurdity of all." He also said that the unprecedented number of press releases and the fact that Ramirez had testified before the National Assembly May 25 for the first time in two years (after missing some scheduled appointments) were not "a show of strength, (but) a show of weakness" and that "PDVSA is in a vise." He noted, "This is ceasing to be an economic matter." (Note: In addition to the at best semi-legal placement of funds into various special funds, and the likely over-statement of production, and attendant earnings, the question also arises of how much PDVSA money has simply been diverted into private hands as a result of corruption. While we suspect that most PDVSA corruption takes place inside Venezuela, through sweetheart deals for contracting services, etc., that possibility of skimming before the money reaches Venezuela cannot be ruled out. End note.)

COMMENT

17. (C) PDVSA has not accounted fully for the income it has reported to the Central Bank, nor explained why it claims to have given more than the BCV says it has received. Ramirez's contradictory statements, as well as the fact that he acknowledges diverting funds in a way the Central Bank says is not permitted, have only heightened suspicions. The utter lack of reliable information - both in terms of actual oil production and PDVSA income, as well as in and out of the two special funds - mean that GOV officials can claim virtually anything and not be conclusively proven wrong. Nonetheless, the controversy is highly embarrassing for the GOV, and makes it harder to sustain its boast that it successfully brought PDVSA fully back after the Dec 2002-Feb 2003 general strike, and that the new "revolutionary" enterprise can continue to produce great benefit for the poor. As Guerra put it, although "they can lie, they have to explain."

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